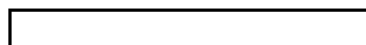


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THE ARAB-ISRAELI SITUATION

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1. NEW SOVIET MOVES IN SUEZ CRISIS

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Moscow's first official demarche to the Western powers on the Suez problem since the London conference was contained in notes delivered to London and Paris on 12 September. The notes warn again that the use of force against Egypt would carry the inherent risk of an expanded war and encourage the British and the French to undertake new negotiations either in a conference or at the United Nations. The notes will reassure Cairo of Moscow's good faith in carrying out its promise to give Egypt active political support during the crisis.

According to a source in the British Foreign Office, the note to London dealt largely with the dangers of using force in the present age, the lasting effect the use of force would have on Western interests in the Middle East, and an appeal for a peaceful settlement of the problem based on the United Nations charter. According to the French Foreign Ministry, the note to Paris adds an insinuation that the United States is attempting to replace France in Algeria and gain ascendancy in the Middle East. The note asserts that the USSR had no prior knowledge that Nasr was going to nationalize the Suez Canal and that Moscow has consistently urged Nasr to settle the matter peaceably.

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Meanwhile, TASS in London has termed the creation of the canal users' association a "signal for the intensification of a campaign of blackmail and threats in respect to Egypt." Moscow radio on 13 September charged it runs counter to the United Nations charter. Western press reports state that Soviet diplomats in London have harshly criticized the users' association and have stated that while the USSR wants to avoid a conflict over Suez, the USSR would be among those nations providing Egypt with both volunteers and arms should there be an attempt to force solution on Egypt.

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2. EGYPT APPEARS STILL SEEKING TO AVOID
PROVOCATION IN SUEZ CRISIS

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[REDACTED] while the Egyptian government's initial reaction to the announcement of the formation of a Suez Canal users' association was one of outrage and determination to resist with all available means, soberer second thoughts appear to have produced a renewed determination to avoid any action which could be interpreted as provocation or as obstruction of canal traffic.

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The Nasr regime's tactic, [REDACTED] seems to be to ridicule the users' association plan while trying to marshal world opinion against it. [REDACTED]

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Comment

Strong Egyptian statements opposing the users' association plan, even considering they were made in the heat of the initial reaction, seem to have closed off any possibility that Cairo might come to terms with this plan.

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3. EUROPEAN REACTIONS TO PROPOSED SUEZ USERS' ASSOCIATION

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Premier Mollet and Foreign Minister Pineau during a conversation on 13 September gave Ambassador Dillon the impression that the proposed users' association fully satisfied British and French needs for action and contributed to avoiding the danger of armed hostilities with Egypt. Once the association was organized, Paris would be willing to undertake serious negotiations with President Nasr for a permanent settlement along the general lines of the 18-power proposal.

Pineau believes there is a good possibility of avoiding hostilities unless Nasr commits another grave act, but he did not indicate whether rendering transit impossible for vessels of the proposed users' association would, if carried out peacefully, be the type of grave action which might bring on hostilities.

Italian foreign minister Martino on 13 September told Ambassador Dillon in Paris that he did not see how the proposed association would be successful in getting shipping through the canal and said that Italy, for geographical and financial reasons, could not undertake to route its shipping around the Cape of Good Hope. Martino said he felt the only way to make further progress would be to call another conference of the 18 nations. The Italian cabinet, on the other hand, issued a communiqué on 12 September advocating recourse to the United Nations.

The Danish, Norwegian and Swedish foreign ministers meet in Stockholm Sunday to seek a common Scandinavian position toward the proposed users' association. The reaction of the Scandinavian governments to the proposal has been strongly negative and Foreign Minister Uden of Sweden is convinced the matter must be referred to the UN.

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4. NASR REPORTED READY TO NEGOTIATE ON BASIS OF SPANISH SUEZ PROPOSAL

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[REDACTED] [REDACTED]
The Egyptian ambassador in Madrid has informed Spain that Nasr would accept Spain's proposed formula of an international consultative body for the Suez

Canal, leaving Egypt full operating control, as a basis for negotiations in a new 45-power conference sought by Egypt. Spanish foreign minister Martin Artajo informed Ambassador Lodge on 13 September that Spain had promised to inform Egypt of its intentions with regard to the proposal by 15 September, but desired to know the US position first. Martin Artajo also expressed concern lest the West find itself at war without having explored this new development.

The Egyptian ambassador prefaced his announcement of Nasr's offer with the statement, "Spain's hour had now come" to save the peace.

Comment

At the London conference, Spain reserved its right to suggest a consultative form of international participation for the Suez Canal similar to the Indian plan should the 18-power proposal be rejected by Egypt.

The Spanish government and the controlled press have taken the view that the Spanish amendment was the only approach to the issue that had a good chance of effecting a prompt solution. The Egyptian press has claimed the support of twenty nations--including India and the Soviet bloc members--for the new conference proposal, but no official acceptances have been reported.

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5. NEHRU CALLS A COLOMBO POWERS' MEETING ON SUEZ

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Nehru has called for a meeting on 15 September of representatives of the Colombo powers in New Delhi to discuss the Suez Canal question, according to an Indian government announcement.

India's move--which reportedly surprised Pakistan, Ceylon, Burma and Indonesia--is probably to seek approval for a new approach to the disputing nations. This approach seems likely to take the form of a call for postponement of any proposed Western action and for further peaceful negotiations on the basis of mutual recognition of Egypt's sovereignty and of international interest in the canal.

Pakistan, which supported the West at the London conference, may under mounting public pressure associate itself with any mediation move by the Colombo powers. Britain would deplore such a move by a group including the three Commonwealth nations of India, Pakistan and Ceylon, but would be unlikely to be deterred by Pakistan's defection from the 18-nation group at the London conference.

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6. SOVIET CANAL PILOTS REPORTED IN EGYPT

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An unspecified number of Soviet ship pilots have arrived in Egypt and are prepared to enter on duty on the Suez Canal, according to a press report quoting the Soviet consul in Port Said.

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**9. SAUD REDUCES PRICE FOR EXTENSION OF DHAHRAN
AIRFIELD AGREEMENT**

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King Saud, as his "last offer," expressed willingness to Ambassador Wadsworth on 13 September to extend the Dhahran airfield agreement for five more years

if the United States would agree to grant \$85,000,000 worth of military equipment in addition to furnishing \$25,000,000 worth of other aid.

25X1A The king added that if the United States would agree to sell an additional \$35,000,000 worth of arms, previously sought by him, he would desire to retain the American military advisory mission.

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Comment Saud's proposal contrasts with his pre-Suez offer to extend the agreement for five years in return for \$250,000,000 worth of arms.

The previous five-year agreement expired in June of this year, but was provisionally extended by the king pending conclusion of a new agreement.

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10. SOVIET-INDONESIAN AID AGREEMENT SIGNED

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An agreement for \$100,000,000 in Soviet aid for Indonesia will be signed in Djakarta on 15 September, according to an announcement by the Indonesian Foreign Ministry. The announcement stated that the aid would be used to help develop asphalt and hydro-electric plants as well as coal and nickel mines.

The aid probably has been set up as a line of credit on which Indonesia can draw as its economic plans progress under a five-year plan, now in final stages of preparation. The Indonesian press reported on 12 September that the credit would be at 2.5-percent interest repayable in 12 years.

The decision on the amount of aid may have resulted from talks held by President Sukarno and Foreign Minister Abdulgani during their recently concluded visit to Moscow. Indonesian officials may argue--in defense of their neutrality--that the Soviet credit balances the \$100,000,000 granted by the Export-Import Bank in 1950, which has been exhausted only this year.

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11. USSR WARNS SATELLITES AGAINST
YUGOSLAV INFLUENCE

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The Soviet Communist Party warned the Hungarian and other Satellite parties on 3 September against Yugoslav influence in regard to the "separate roads to socialism" concept, explicitly criticizing Communist statements too commendatory of Yugoslavia and saying that the USSR remains the model to follow. The Soviet party also criticized Yugoslav foreign policy as being "too pro-Western," according to information received by the American embassy in Belgrade.

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Comment

The recent press exchange between Yugoslavia and the Soviet bloc on the "Cominformist" trials indicated that the question of "national Communism" was still unresolved. Although Yugoslavia adopted a "conservative" attitude toward changes in Eastern Europe up through the period ending with Tito's June visit to the USSR, the Yugoslavs have again resumed the initiative in influencing developments in the Satellites and have accorded public support to "moderate" Polish and Hungarian Communist elements.

Although this Soviet move may compel "moderate" Communist forces to adopt more cautious tactics, previous warnings such as Bulganin's speech in Warsaw last July were apparently largely ignored by those Satellite Communists intent on more independent, liberal policies.

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12. EMPLOYMENT OF SOVIET TECHNICIANS IN EGYPTIAN OIL EXPLORATIONS

[REDACTED] Soviet technicians are to assist Egypt in the oil explorations for which American and British companies had been seeking leases for several months, ac-

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American companies had been assured they would be awarded the leases. The reasons for the reported decision are said to have been hostility to Britain and fear that concessions to American firms would be interpreted as a sign of weakness.

The USSR has unsuccessfully attempted to secure rights to oil exploration elsewhere in North Africa and the Middle East. The embassy speculates that similar arrangements may be extended to other planned oil exploration activities in Egypt, but there have been no indications that concessions already operated by British and American companies will be affected.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 14 September)

A new serious incident took place along the Israeli-Jordanian border during the night of 13-14 September. A Jordanian military spokesman charged that a large Israeli mobile force raided a police post 12 miles inside the border in South Jordan, killing at least 21 Jordanians. The Israeli press claimed that there were no survivors among the 50-man garrison of the post. None of the recent raids has been acknowledged by the Israeli government. Tension mounted as Jordanian troops were placed on the alert and officers' week-end leaves were reported canceled. Meanwhile, Jordan's King Hussain flew to Habbaniya in Iraq for an emergency conference with Iraq's King Faisal, Prime Minister Nuri Said and Army Chief of Staff Rafiq, in a reported effort to obtain Iraqi aid.

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The new Israeli raids will promote instability in Jordan by further weakening the influence of the king and the government in West Jordan, where the National Guard and former residents of Palestine have borne the brunt of the pressure. The American embassy in Amman reports indications that both the National Guard and the civilians are becoming more difficult to control.

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Reports from Cairo indicate the possibility of exhaustion of refugee relief food supplies in the Gaza strip by the

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end of September. The American embassy reports that the Gaza refugees are already aware of the shortage of food supplies and are beginning to show discontent. American and Egyptian relief officials expect that unless the refugees can be assured that more food is coming, riots may occur.

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